

U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL



AUDIT PLAN *Fiscal Year 2005*

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EXECUTIVE OVERVIEW

The Postal Service's mission is to bind the nation together by providing prompt and reliable mail delivery at fair and equitable prices to all customers. It delivers more than 200 billion pieces of mail each year. This represents more than 46 percent of the world's mail.

Based on revenue, it is the eleventh-largest enterprise in the nation, collecting nearly \$68.5 billion in revenue annually. The Postal Service employs more than 700,000 career employees, making it the second-largest civilian employer in the nation. To deliver world-class service, the Postal Service must excel in performing its core business processes of accepting, processing, transporting and delivering the mail, as well as marketing postal products and services.

In April 2002, the Postal Service issued a comprehensive Transformation Plan to address its financial, operational, and human capital challenges. As the Postal Service proceeded with transformation, the President and Congress placed increased emphasis on the Postal Service because of the significant challenges it was facing. In January 2003, the President appointed a commission to recommend legislative and administrative steps necessary to enact reform needed to ensure the viability of postal services. In July 2003, the Commission issued its report articulating a vision for the future of the United States Postal Service. In its Five Year Strategic Plan Fiscal Year (FY) 2004-2009, the Postal Service provides four broad strategic goals focused on results and describes how the Postal Service will continue to respond to the American people and increase its value in the U.S. economy.

The OIG concentrates on high-risk and strategically important areas to provide the Postal Service with an unbiased assessment on the progress made in achieving its goals. The OIG's FY 2005 Audit Plan communicates our audit priorities to the Postal Service, the Board of Governors, Congress, and other interested parties. Our work will examine and evaluate critical Postal Service operations and programs to enhance the Postal Service's ability to meet customer requirements, maintain market value, and fulfill employee needs.

The FY 2005 Audit Plan presents our work in three broad areas of impact on Postal Service operations: Field, Core, and Financial. The plan includes audits that address major management issues facing the Postal Service and those required by statute. Our work provides timely information to postal management for decision-making, as well as keeping the Board of Governors and Congress fully informed of significant issues.

MISSION AND ORGANIZATION

The OIG's mission is to conduct and supervise objective and independent audits, reviews and investigations relating to Postal Service programs and operations to:

- prevent and detect fraud, waste, and abuse;
- promote economy, efficiency, and effectiveness;
- promote public integrity;
- strengthen professional relationships; and
- keep the Governors and Congress informed of problems, deficiencies, and corresponding corrective actions.

The OIG was created by Congress in 1996 and is an independent agency within the Postal Service under the general supervision of nine presidentially appointed Postal Service Governors. The OIG has statutory responsibility to protect the integrity of Postal Service programs and operations, and to ensure that the mail service is administered with maximum economy and efficiency. In addition, the OIG has "oversight" responsibility for all activities of the Postal Inspection Service, a major federal law enforcement agency.

OIG audits, inspections and reviews are designed to protect assets and revenue, ensure efficient and economical mail delivery, and safeguard the integrity of the postal system. These audits and related engagements are performed in compliance with the standards published by the Comptroller General of the United States, the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and the President's Council on Integrity and Efficiency. In addition, OIG special studies provide insight on quantitative issues involving Postal Service operations and economics matters.

Under the leadership of the Inspector General, the Assistant Inspector General for Audit (AIGA) is responsible for the Office of Audit. Deputy Assistant Inspectors General for Audit (DAIG), who are aligned with Postal Service operations, report to the AIGA, and cover Field, Core, and Financial Operations.

The DAIGs advise the AIGA on the major risks facing the Postal Service in their program areas and annually propose audits based on perceived risks, stakeholder concerns, and follow-up reviews of previously audited areas with significant control weaknesses. The DAIGs also maintain working contact with Postal Service executives to ensure full coverage of issues and challenges facing the Postal Service.

PLANNING PROCESS

The OIG's FY 2005 audit plan is a risk-based plan that helps ensure audit resources are directed to top priorities. We used professional judgment to determine the critical areas for audit attention based on the potential for adverse effects on the Postal Service.

Our planning process comprised four main steps: (1) identification of an audit universe; (2) determination of a project universe; (3) completion of a risk assessment; and (4) development of an audit plan. We created an audit universe by identifying major Postal Service programs and operations for each functional area and ranking them according to those posing the highest risk to the Postal Service.

To create the project universe, we identified individual projects for the high risk programs and operations with input from OIG staff and various external sources.

POTENTIAL SOURCES FOR PROJECT UNIVERSE

- Postal Governors
- Postal Unions
- Postal managers
- Congressional requests
- Hotline complaints
- IG community
- Legislative actions
- Technology changes
- Emerging trends
- Results of prior audit and reviews

To determine which projects to include in this plan, we prioritized them based on an assessment of risk factors and probability of risk occurrence. We used standardized--and in some cases function-specific--risk factors to determine those projects having a higher risk. Standard risk factors include materiality, impact on operations, visibility and public sensitivity, stakeholder concern, prior audit results/time since last audit, and loss potential—fraud/other vulnerabilities

After identifying projects having the highest potential for adverse consequences and considering the probability of occurrence, we created our audit plan consisting of:

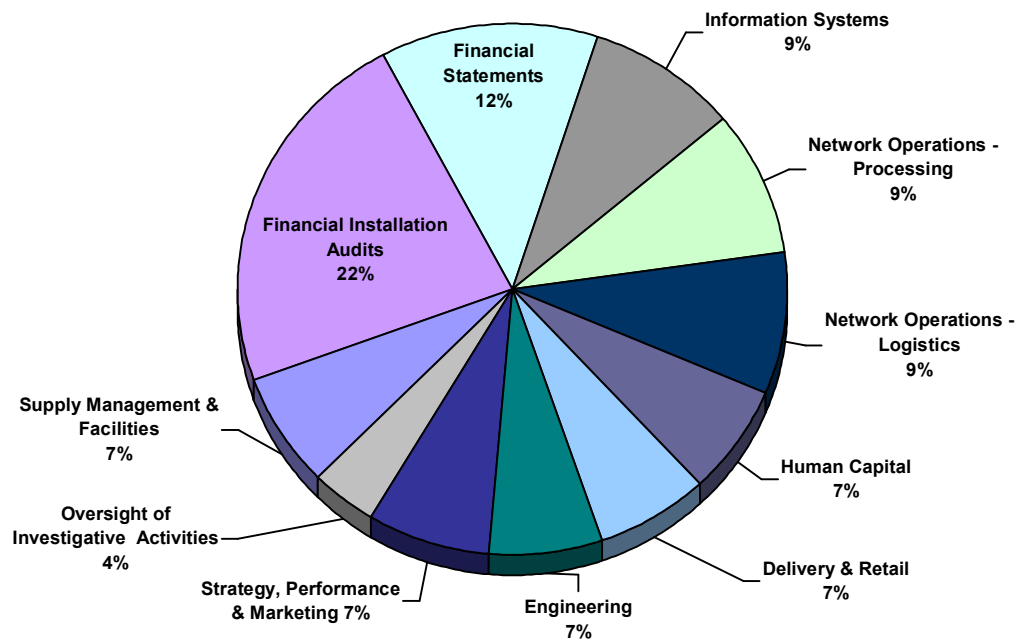
Audits - Formalized, in-depth studies that follow established government auditing standards.

Reviews – Studies that are smaller in scope than audits and follow quality standards for inspections established by the President's Council on Integrity and Efficiency.

Fact-findings – Inquiries other than audits and reviews conducted to independently identify and document a course of events, condition, or occurrence.

The charts below show the percentage of resources allocated to the FY 2005 planned projects for the performance and financial areas. Because of contingencies and unexpected events during the year, we may adjust our plan to accomplish our mission and meet the challenges facing the Postal Service.

Percentage of Resources by Audit Areas



AUDIT PROGRAM AREAS

The FY 2005 Audit Workload Plan presents our scheduled audit projects in three major areas of impact on Postal Service operations; Field, Core, and Financial. In addition, the plan includes projects covering Audit Operations. The following narrative briefly describes each area.

FIELD OPERATIONS

In its April 2002 Transformation Plan, the Postal Service stated that its goal was to reduce costs by \$5 billion by the end of 2006. Through the end of FY 2003, the Postal Service estimated they had achieved \$2.7 billion in cost savings and expense reductions. The Postal Service relies on strong financial management controls to maximize revenue and minimize costs. In addition, the Postal Service recognizes technology as key to productivity and efficiency. Through technology, the Postal Service handles more than 650 million pieces of mail each day and maintains its network of post offices and facilities. Accordingly, it must ensure that its technological investments are sound. Our audit work will add value to the Postal Service by identifying opportunities for cost savings and improving management of finances, supply chain management, facilities, and engineering.

Field Operations

The OIG conducts audits in support of the Board of Governors' independent public accountant's overall opinion of Postal Service financial statements. The field operation audits assess the integrity and reliability of the financial information in these statements through reviews of units such as post offices, contract postal units, self service postal centers, and bulk mail entry units.

Supply Management and Facilities

The Postal Service manages contracts with commitment values totaling over \$25 billion annually for its goods, transportation, and facilities-related services. Over the past several years the Postal Service implemented the supply chain management philosophy to maximize the effectiveness and efficiency of these expenditures. In addition, the Postal Service identified opportunities to reduce costs and maximize return on its property, including standardization of building design, post occupancy evaluations of recently built facilities, and proactive leasing programs. OIG audit work will focus on the Postal Service's challenge in these areas to control and reduce costs yet maintain efficient acquisition practices with effective controls to prevent fraud, waste, and abuse.

The OIG is also responsible for contract audits designed to assist Postal Service contracting officers in determining fair and reasonable contract prices as well as providing them with reviews of contractors' financial systems.

Engineering

The Postal Service develops business systems and mail processing equipment to improve performance, enhance service, and reduce operating costs. The typical development process begins with the identification of a business need. After the business need has been identified, a solution is developed, followed by proof of concept, first article tests and final deployment. OIG work will focus on reviewing Postal Service systems as they are developed.

CORE OPERATIONS

To deliver world-class service, businesses and government agencies must excel in performing their core business processes. For the Postal Service, these core business processes and systems encompass accepting, processing, transporting, and delivering the mail. Additionally, with more than 700,000 career employees working at over 37,000 facilities nationwide, the Postal Service must foster an inclusive, welcoming, and productive workplace consistent with its values of fairness, opportunity, safety, and security. Further, as the law enforcement and security arm of the Postal Service, the Inspection Service performs investigative and security functions essential to a stable and sound postal system. Our audit work will add value to the Postal Service core business processes and enhance Inspection Service activities by identifying opportunities for cost savings and detecting and deterring fraud, waste, abuse and mismanagement.

Network Operations Processing

The Postal Service accepts more than 200 billion pieces of mail per year in a variety of ways, including mail collected from more than 295,000 collection points, as well as residential and business collection mailboxes. Express Mail, First-Class Mail, Priority Mail, periodicals, and standard mail are sorted at more than 440 processing facilities. OIG efforts help the Postal Service ensure timely and accurate delivery of mail and explore ways to enhance the accepting and processing of mail through reviews of efficiency and equipment utilization, standardization of operations, and network changes.

Network Operations Logistics

Network operations and logistics include transportation by air, highway, rail, and maritime networks, plus logistical support to all transportation operations, or other Postal Service functions. Every year, more than 200 billion pieces of mail and equipment move over transportation networks. This movement is supported by major logistical activities including 22 Mail Transport Equipment Service Centers, fuel procurement, vehicle acquisition, and various supplies and services. Transportation and logistics cost the Postal Service more than \$6 billion annually. Our work will assist the Postal Service's challenge of increasing efficiency in transportation.

Delivery and Retail

Delivery and Retail are critical components in helping the Postal Service fulfill its mission of universal mail delivery and efficient service to patrons in all communities. The Postal Service binds the nation together through delivery of personal and business correspondence (letters and packages) to over 142 million addresses nationwide, using approximately 300,000 city and rural carriers and delivery support systems. The Postal Service also provides customers with access to services through an extensive network of retail facilities at more than 38,000 post offices, stations and branches. The Postal Service must cut costs despite an increasing delivery network and potentially declining mail volumes, and must develop more retail alternatives for customers. OIG work will assist the Postal Service in its challenge of decreasing costs by \$5 billion by 2006 as it strives to provide universal delivery and increase retail and customer service productivity.

Human Capital

The Postal Service characterized improving labor management relations as one of the most important challenges in achieving its mission in the 21st century. The Postal Service realizes that to operate effectively in a rapidly changing environment, it needs to give employee issues a higher priority and enhance each employee's contribution to organizational performance. In addition, controlling workers' compensation costs is vital to the Postal Service's financial well-being because the Postal Service is self-insured and makes payments out of operating funds, which directly affect the Postal Service's net income. The OIG will continue to support the Postal Service in its overall goal of developing a motivated and productive workforce.

Oversight of Investigative Activities

A primary reason for the Inspector General Act, as amended, was to establish an independent OIG to provide oversight of all Inspection Service activities, including any Inspection Service internal investigations. It is essential that the Inspection Service, as a law enforcement agency, be held to the highest standards of conduct to maintain the public's trust and the Postal Service's reputation of reliability. In accordance with the Act, the OIG provides objective information and assessments of the activities of the Inspection Service to keep the Governors, Congress, and Postal Service management fully informed of Postal Service law enforcement efforts and to detect and prevent fraud, waste, abuse, and mismanagement.

FINANCIAL OPERATIONS

The Postal Service relies on strong financial management controls and reliable business systems and mail processing equipment to maximize revenue and minimize costs. The Postal Service must also maintain its market share of the mailing industry by providing affordable products and services at places convenient to its customers. Its challenge is to strategically balance its statutory mandate of providing universal service with remaining a viable business enterprise.

Our audit work will add value to Postal Service financial management processes; information systems; and, strategy, marketing, and performance initiatives by identifying opportunities for cost savings, risk management and detecting and deterring fraud, waste, abuse and mismanagement.

Financial Statements

The Postal Reorganization Act of 1970 requires an annual audit of the Postal Service's financial statements. The OIG conducts audits in support of the Board of Governors' independent public accountant's overall opinion on those statements. These audits assess the integrity and reliability of the financial information in the Postal Service financial statements. The Postal Service's Information Technology and Accounting Service Centers oversee the collection of over \$68 billion in revenue and the recording of a similar amount of expenses each year.

Information Systems

The Postal Service relies on a complex computer infrastructure to accomplish and streamline operations, manage one of the largest civilian workforces in the world, and move billions of pieces of mail each year. The Postal Service has initiated several information technology projects to enhance efficiency and increase revenue. OIG work assists the Postal Service in ensuring that computer security is maintained and improved to reduce the risk of fraud, inappropriate disclosure of sensitive data, unauthorized disclosure of customer information, and disruption of critical operations and services.

Strategy, Performance and Marketing

One of the major management issues facing the Postal Service is identifying long-term strategies to better balance its statutory mandate of providing universal service with its need to remain a viable business enterprise. This process began with the Postal Service's Transformation Plan and planned actions to address recommendations from the Presidential Commission's report. OIG work will independently assess the efficiency and effectiveness of the strategies and measures the Postal Service put in place to support its strategic goals.

The Postal Service operates in a globally competitive environment and its ability to maintain or increase its market share of the \$900 billion mailing industry is essential to providing universal service at affordable rates. Therefore, the Postal Service designs its marketing products and services to build customer awareness and loyalty. The Postal Service also wants to ensure that its services are available at places where customers choose to do business. OIG work will focus on evaluating marketing strategies and programs to assist the Postal Service in improving products and services for their customers.

Cost, Revenue & Rate Information

The OIG created a new directorate – Cost, Revenue and Rate Information – to evaluate Postal Service information data systems that provide support for postage rate increases to the Postal Rate Commission. This directorate will plan projects when it has fully established its goals and mission.

AUDIT OPERATIONS

Traditionally, the Audit Operations group provides analytical support and oversight of OIG audit teams. Two of the Audit Operations teams will be contributing written products to the FY 2005 Audit Plan. The Quality Assurance group conducts internal reviews of OIG audits and mission support programs to ensure that these engagements and programs are conducted with integrity and efficiency. OIG Experts consisting of statisticians, economists and cost benefit analysts specialists provide analytical support to audits and investigations. For the first time, they will be publishing informational papers on Postal programs and operations.

PLANNED AUDITS FOR FIELD OPERATIONS:

FIELD OPERATIONS

Plan and direct work at Postal Service field units such as post offices, contract postal units, self service postal centers, and bulk mail entry units in support of the independent public accounting firm's annual financial audit opinion and conduct other financial-related audits to identify areas for improvement.

PROJECT	OBJECTIVE
FY 05 Financial Installation Audits	In support of the opinion on the Postal Service financial statements currently provided by Ernst & Young LLP, determine whether financial transactions of field operations were reasonably and fairly represented in the accounting records and whether internal controls were in place and effective. Provide information to the Postal Service on morning standard operating procedures.
FY 05 Cost and Revenue Analysis audits	Determine whether the statistical tests conducted to collect cost, revenue, and volume data were performed in accordance with established Postal Service policies and procedures.

SUPPLY MANAGEMENT AND FACILITIES

Plans and directs audits and reviews of purchasing, contracting and supply management activities, as well as all aspects of postal facility repair, renovation, and new construction. In addition, oversees Defense Contract Audit Agency audits.

PROJECT	OBJECTIVE
Major Construction Project	Determine whether the project meets operational and cost requirements. Consider the independent review and approval process, lease vs. build decisions, independent validation of Decision Analysis Report, and follow-up to ensure DAR assumptions were accurate and followed through on.
Cost of New Construction	Determine the reasonableness of cost of new construction.
Termination Clause in Lease Agreements	Determine whether termination clauses are included in leases. If so, determine whether the clauses are properly executed.
Environmental Policies and Procedures for Purchasing Land	Determine whether the Postal Service is effectively conducting required environmental analysis to ensure that Postal Service property is free of contamination.
Use of Existing Real Estate Assets to Avoid Lease Expenditures	Determine whether the Postal Service is effectively utilizing realty assets to avoid additional expenses for corporate space leased within the local vicinity.
Major Program Acquisition – Software	Determine whether a software acquisition is meeting the functional, cost, and schedule requirements.
National Contracts	Determine whether the Postal Service is effectively and efficiently awarding and administering national contracts.

SUPPLY MANAGEMENT AND FACILITIES CONTINUED

Validation of Return on Investment on Existing Projects	Determine whether the Postal Service is achieving return on investment as reported in the Decision Analysis Report. If not, what actions are being taken.
Source Selection	Determine whether the Postal Service is establishing and following proper source selection criteria.
POS One Program Costs	Determine whether POS One program costs are properly categorized and justified.
Controlling Cost in Cost Contracts	Determine whether the Postal Service is properly controlling costs of cost contracts.
Acquisition Planning and Contract Type	Determine whether the Postal Service is properly planning for and using contract types/ordering agreements.
Retail Optimization (Merging Post Offices and Contract Postal Units)	Determine whether Postal Service efficiently utilizes post offices and contract postal units.
Allocation and Administration of Facilities Budgets	Determine the effectiveness and efficiency of allocation and administration of facilities budgets.
Acquisition Process for Highway Contract Routes	Determine whether the Postal Service is properly awarding highway contract routes.
Standard Building Designs	Determine if standard building designs are updated and reflect current mail processing flow requirements.
Post-Occupancy Evaluations	Review DAR justifications, assumptions, and projections for recently built facilities to determine if they result in actual costs and variances achieved

ENGINEERING

Plans and directs audits and reviews of new or redesigned Postal Service systems, programs, and operations that are under development.

PROJECT	OBJECTIVE
Shared Services-- Human Capital Enterprise (SSHCE)	Determine if the supplier of SSHCE provided and implemented an integrated and efficient human capital system solution. Determine if the system will meet performance, reliability, flexibility and cost objectives to handle over 700,000 employees.
Management and Controls for Engineering Research and Development Funding, Intellectual Property Rights and Prioritization of Automation/Mechanization Projects	Determine whether processes are in place to effectively monitor Research and Development projects.
Optical Character Recognition (OCR) Enhancement	Review the performance and associated costs of the Postal Services planned replacement of the Multi-Line Optical Character Recognition (MLOCR) with the acquisition of Delivery Bar Code Sorter Input-Output Subsystems (DIOSS) kits and DIOSS Expanded Capability machines.

ENGINEERING CONTINUED

Intelligent Mail Data Acquisition System (IMDAS)	Assess network connectivity and determine whether the supplier of IMDAS will provide and implement an integrated and more efficient data collection system.
Integrated Dispatch and Receipt	Determine if these efforts to further automate and integrate dispatch systems are cost effective and properly managed.
Replacement-Point of Service (rPOS)	Determine if rPOS will be able to provide accurate and reliable data and if projected savings attainable. In addition, assess whether Commercial Off the Shelf (COTS) will adequately support all of the necessary functions connected with retail operations and if Information Technology will be able to properly maintain the COTS.
Flats Forwarding System (FFS) PARS for Flats	Determine if the program is functionally sound and if the Change-Of-Address forms processing system is able to support the program.
Flats Identification Code Sort (FICS) Program	Determine the effectiveness of the FICS and whether the program would perform the task of reducing labor hours required to manually process mail pieces.
Automated Flats Sorting Machine (AFSM) 100 Auto Induction	Determine if the program is functionally sound and if projected staffing savings and return on investment are attainable.
Automatic Tray Handling System for the AFSM 100	Determine if system is meeting statement-of-work performance requirements and if staffing savings and return on investment are attainable.
Mail Isolation Control and Tracking (MICT)	Determine if efforts underway to establish the MICT policies and procedures are effective.
Accounts Payable Accounts Receivable System	Determine if funds spent to reengineer the legacy accounts payable system was necessary when that system had to be replaced after 2004. Also, review the development and deployment of the new accounts payable system.

PLANNED AUDITS FOR CORE OPERATIONS

NETWORK OPERATIONS PROCESSING

Plans and directs audits and reviews focusing on the economy, efficiency and effectiveness of mail acceptance, collection and processing operations, as well as logistics activities supporting these operations.

PROJECT	OBJECTIVE
Military Absentee Ballots Processing	Assess the Postal Service's processing of military absentee ballots during the 2004 presidential election.
MERLIN - Global Issues	Determine if Mail Evaluation, Readability and Lookup INstrument (MERLIN) has improved business mail acceptance, met return on investment goals, and collected appropriate revenue due.
MERLIN - Site-Specific Locations	Determine MERLIN utilization and whether additional revenues were collected from MERLIN assessments.
Processing & Distribution Facility - Mansfield, Ohio	Determine if resources are being used efficiently.
Processing and Distribution Facility - Akron, Ohio	Evaluate the efficiency of mail processing operations and assess the effectiveness of facility utilization.
Evolutionary Network Development Implementation	Evaluate the Evolutionary Network Development (formerly Network Integration and Alignment Initiative) project implementation.
International Service Center - Los Angeles, California	Determine if resources are being used efficiently.
Selected Eastern and New York Metro Area Mail Processing Facilities	Determine if resources are being used efficiently.
Integrated Operations Plan - Eastern Area	Evaluate the development and implementation of operational best practices across functions.
Selected Mail Processing Equipment	Assess return on investment and impact of the equipment on postal operations.

NETWORK OPERATIONS LOGISTICS

Plans and directs audits and reviews of delivery and domestic and international transportation operations, specifically addressing the economy, efficiency and effectiveness of Postal Service fleet operations and contracts for air, highway and rail services.

PROJECT	OBJECTIVE
Commercial Air Networks	Determine if commercial air networks are effective and identify opportunities to save money.
Federal Express Air Network	Determine if the Federal Express air network is effective and identify opportunities to save money.
Area Bulk Mail Center Transportation Routes	Evaluate the effectiveness of the long distance routes managed by bulk mail centers and identify opportunities to eliminate trips and save money.

NETWORK OPERATIONS LOGISTICS CONTINUED

Highway Contract Routes – Long Distance	Evaluate effectiveness of scheduled long distance highway contract routes (trips >300 miles one way) and identify opportunities for savings.
Area National Trailer Utilization	Evaluate the Postal Service fleet of more than 17,000 trailers, analyze fleet utilization, and identify opportunities to eliminate trailers and save money.
Mail Transport Equipment Service Centers	Analyze the contractor operated mail transport equipment service center network and identify opportunities to save money.
Fuel Management	Analyze whether the various fuel procurement programs are effective and identify opportunities to save money.

DELIVERY AND RETAIL

Plans and directs audits and reviews that examine how the Postal Service is improving its retail services to its customers and address the economy, efficiency and effectiveness of Delivery operations.

PROJECT	OBJECTIVE
City Letter Carrier Operations	Assess the management of city letter carrier operations. Determine whether delivery unit supervisors/managers adequately match workhours with workload; effectively use the Delivery Operations Information System (DOIS) to provide actionable data to assist in managing office activities; and adequately perform street management to monitor delivery letter carriers street time to correct negative trends.
Accuracy of Mail Volume Measurement in City Delivery Units	Determine whether postal officials adequately measure mail volume in city delivery units.
Automated Deployment Strategy	Assess the adequacy of the full-scale deployment of Automated Postal Centers (APC) by evaluating management's process for determining the location for the new APCs. Assess Postal Service plans to remove older vending machines from facilities receiving APCs and redistribute them to other locations. Focus will be placed on the aging and inoperable vending machines, cash vs. credit and debit card machines.
Rural/Highway Contract Carriers	Assess management models for rural and highway contract letter carriers to determine if these models are more efficient and effective than the City Letter Carrier model.
Retail Operations Workhours to Workload Matching	Determine whether retail managers adequately manage workhours to workload.

DELIVERY AND RETAIL CONTINUED

Accuracy of Vending Equipment Sales System (VESS) Data	Determine whether VESS data is accurate. Determine whether managers adequately managed the VESS data to ensure the sales and service information is accurate and complete; accurately and timely transferred Self-Service Vending Program revenue information into the Postal Service financial systems; and adequately investigated vending credit shortages/overages and took corrective action.
Inventory Management of Vehicle Parts in Vehicle Maintenance Facility Stockrooms	Determine whether inventory stock levels in vehicle maintenance stockrooms are appropriate.
Retail Network Optimization	Assess the process for post office closures or consolidations. In heavily populated areas, determine whether opportunities exist for closure/consolidations when offices/units are located near one another.
Feasibility of Retrofitting Older Vending Machines	Review the feasibility of retrofitting older cash-only vending machines to accept debit/credit cards. Assess sufficiency of prior Postal Service study on this matter.

HUMAN CAPITAL

Plans and directs audits and reviews focusing on labor relations, labor management, and health care issues within the Postal Service to assist in maintaining a healthy and safe organizational climate for employees and improving operational economy, efficiency and effectiveness.

PROJECT	OBJECTIVE
Fee Schedule	Determine the impact the OWCP fee schedule has on the Postal Service's rising medical costs for chargeback years 1997 through 2003.
Congressionals and Hotlines	Determine what the Postal Service is doing to resolve workplace issues, and whether management responds in accordance with policy.
First Health (Preferred Provider Organization) Contract	Verify the anticipated savings to the Postal Service derived from the First Health contract. Determine status of actions on recommendations from previous OIG Report. Determine the impact of the Department of Labor's bill pay process on payments to First Health.
Schedule Awards	Determine whether the Postal Service was overcharged for schedule awards payments and received the credits or refunds due as a result of overpayments. Determine if the federal schedule awards is commensurate with state schedule awards.
Postal Service Participation in the Office of Workers' Compensation Programs (OWCP)	Determine the feasibility of the Postal Service pulling out of the OWCP and developing its own workers' compensation program, including benchmarking with state and private companies.

HUMAN CAPITAL CONTINUED

Nature of Grievances	Determine the nature (type and number) of Postal Service grievances and the initiatives taken to reduce and prevent them.
Accident Analysis	Determine if the types of accidents, injuries, and illnesses are being targeted for reduction through prevention programs.
Area Medical Costs	Determine why medical costs are increasing and assess the Postal Service's actions and initiatives to monitor, decrease, and control medical costs.
Facility Safety	Validate the Postal Service's plan to improve facility safety.

OVERSIGHT OF INVESTIGATIVE ACTIVITIES

Plans and directs audits and reviews of the functions and operations of the Inspection Service and the Office of Inspector General (OIG) Investigations unit.

PROJECT	OBJECTIVE
Facility Security	Evaluate the Postal Inspection Service's role in evaluating and maintaining Postal Service facilities, and protecting employees, customers and operations.
Forensic Laboratories	Determine whether forensic laboratories are efficiently and effectively supporting the mission of the Postal Inspection Service.
Service Centers	Determine whether service centers are efficiently and effectively supporting the mission of the Postal Inspection Service.
Qualitative Assessment Reviews (QARs) - OIG	Perform QARs of OIG Investigations.
Qualitative Assessment Reviews (QARs) - USPIS	Perform QARs of USPIS Divisions.
Emergency Preparedness	Determine whether Postal Inspection Service emergency preparedness plans and programs reasonably protect Postal Service employees, customers, operations, and mail during emergencies.

PLANNED AUDITS FOR FINANCIAL OPERATIONS:

FINANCIAL STATEMENTS

Plan and direct work at Postal Service Headquarters and Accounting Service Centers in support of the independent public accounting firm's annual financial audit opinion and conduct other financial-related audits to identify areas for improvement.

Financial Statements Annual Audit (San Mateo, St Louis, and Eagan Accounting Service Centers)	In support of the opinion on the Postal Service financial statements, currently provided by Ernst & Young LLP, determine whether financial accounting policies and procedures provided for an adequate internal control structure and are in accordance with generally accepted accounting principles, whether the Postal Service complied with material laws and regulations, and whether general ledger account balances were consistent and fairly stated in the trial balance in accordance with generally accepted accounting principles.
Financial Statements Headquarters Audit	In support of the opinion on the Postal Service financial statements, currently provided by Ernst & Young LLP, determine whether financial accounting policies and procedures provided for an adequate internal control structure and are in accordance with generally accepted accounting principles, whether the Postal Service complied with material laws and regulations, and whether general ledger account balances were consistent and fairly stated in the trial balance in accordance with generally accepted accounting principles.
Governors' Travel and Expense Audit	Determine whether the travel and miscellaneous expenses incurred by the Office of the Board of Governors are properly supported and comply with Postal Service policies and procedures and the Boards' guidelines.
Officers' Travel and Expense Audit	Determine whether travel and representation expenses claimed by Postal Service officers are properly supported and comply with Postal Service policies and procedures.
Treasury Agreed Upon Procedures - Federal Intergovernmental Transactions	Perform procedures agreed upon by the Department of Treasury, Government Accountability Office, and Office of Management and Budget, to assist Treasury in the preparation of, and the General Accounting Office in the audit of the consolidated financial statements of the US government.
Special Purpose Financial Statement Opinion Audit	Express an audit opinion on special purpose financial statements created from amounts entered by Corporate Accounting into the Government Financial Reporting System (GFRS). These special purpose financial statements are the basis for Treasury's Consolidated Financial Report of the United States government.
Office of Personnel Management Agreed Upon Procedures - Withholdings and Contributions	Perform procedures agreed upon by the inspector general, chief financial officer, and the associate director for Retirement and Insurance Service of the United States Office of Personnel Management (OPM) to assist OPM in verifying employee withholdings and employer contributions reported on the "Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement."

FINANCIAL STATEMENTS CONTINUED

Review of USPS's Voluntary Compliance with Security Exchange Commission (SEC) Reporting Requirements - Management Assessment of Internal Controls	Review the Postal Service Internal Control Group's role in the Postal Service's voluntary compliance with SEC reporting requirements and determine whether the work the ICG performs is most beneficial to the Postal Service.
Compliance With The Bank Secrecy Act (BSA)	Assess USPS's compliance with BSA and determine whether there are opportunities for improvements in record keeping, reporting, and training.

INFORMATION SYSTEMS

Plans and directs audits and reviews of major Postal Service information systems to determine whether general and application controls are properly established and systems are designed to be secure and provide accurate data to management.

PROJECT	OBJECTIVE
FY 2005 Information System Controls Audit	Determine whether general controls over information systems and infrastructure at Postal Service Information Technology and Accounting Service Centers are in place and operating as intended. This audit supports the FY 2005 annual financial statement audit of the Postal Service.
Evaluation of FY 2005 Information Security Program	Determine if the Postal Service's information security program contains the key elements specified in the federal guidelines designed to protect nation's critical information infrastructure.
Security Assessment of Automated Postal Centers	Determine if customer data is protected from unauthorized use, transactions are valid, resources are protected from unauthorized use.
Follow-up Audit of MCI Security	Assess the security of selected servers and environments maintained by MCI under the current managed network services contract.
Oracle Database Administration Practices	Determine if administration procedures for Oracle databases follow policy, standards and best practices and if segregation of duties are adequate for application data ownership.
Security Vulnerability Testing on Oracle Databases	Assess the security of selected servers and environments and verify the adequacy of security controls over third-party connectivity to Postal Service systems.
Business Partner Connectivity Assessment Testing	Assess security of business partner (3rd party) connectivity to postal data and resources by performing security vulnerability assessments of the servers connected to the postal computer infrastructure, testing compliance to applicable postal hardening standards, and verifying protection of sensitive postal data.
Certification and Accreditation Process	Evaluate whether the Postal Service is adequately identifying systems requiring formal security analysis and management approval, assessing management and technical controls over the confidentiality, integrity, and availability of computer systems during the security evaluation and approval process.

INFORMATION SYSTEMS CONTINUED

Chief Technology Officer (CTO) Implementation of Sarbanes-Oxley Act (FS)	Determine the roles and responsibilities of the CTO regarding the Postal Service's compliance with the Sarbanes-Oxley Act and the costs occurred by the CTO in implementing the Act. Assess what the CTO has done so far to implement the Act.
Security Assessment Testing of Servers at the Eagan and San Mateo Host Computing Services (HCS)	Perform security assessments of selected servers at the Eagan and San Mateo HCSs and compliance tests of the selected servers to the appropriate postal hardening standard(s).
Application Control Review of the National Change of Address System (NCOA) (p7)	Determine if sufficient controls are in place to ensure that data is valid, authorized, and completely and accurately processed.
Security Vulnerability Testing of National Change of Address (NCOA) Servers	Perform security vulnerability assessments of application servers and compliance testing to applicable postal hardening standards.
Postal Service Patch Management Process	Determine that the Postal Service has a patch management policy and process in place and assess the effectiveness of the patch management process.
Application Control Review of POSTAL/1 and interfaces with Retail Sales Audit (RESA)/Standard Accounting for Field Retail (SAFR) and Centralized Accounting Payment System (CAPS)	Determine if sufficient controls are in place to ensure that data is valid, authorized, and completely and accurately processed.
Security Vulnerability Assessment of POSTAL/1 -- Retail Sales Audit (RESA)/Standard Accounting for Field Retail (SAFR) and Centralized Accounting Payment System (CAPS) Servers	Perform security vulnerability assessments of application servers and compliance testing to applicable postal hardening standards.
Inspection Service Routers and Firewalls	Evaluate controls over routers and firewalls within the Inspection Service.
Security Administration of the Enterprise Data Warehouse	Determine that the system provides user controls in accordance with postal policy and that security controls are in place and working as intended.
Data Integrity in the Electronic Data Warehouse	Evaluate the process for data loading and determine whether reconciliation controls exist over original source data.
Security and Controls in Voice Systems	Review corporate standards/policies and organization and DISA ports/management console for access and security.

STRATEGY, PERFORMANCE AND MARKETING

Strategy and Performance

Plans and directs audits and reviews of the efficiency and effectiveness of the strategies and measures the Postal Service put in place to support its strategic goals.

PROJECT	OBJECTIVE
Postal Service Transformation Plan	Determine and assess the management of the Postal Service Transformation Plan to include transparency, measurement, oversight/ownership, and use as a management tool.
Benchmarking Strategic Planning and Performance Measurement	Evaluate how companies and federal agencies plan strategically and measure performance against their strategic plans.
Postal Inspection Service Strategic Planning.	Evaluate the Inspection Service's separate strategic planning process from the Postal Service.
Postal Area vs. District Structure	Evaluate the Postal Service Area vs. District Organizational Structure.
Postal Service Target vs. Actual Performance Measures	Understand how the Postal Service measures target (planned) and actual performance results.
Postal Reform	Determine how the implementation of Postal Reform will affect operations and how it will allow the Postal Service to achieve its long term goals.
Postal Architecture	If Postal Reform is not passed, determine what the Postal Service's "building" is; what data (measurement) is available to determine the "build" process or status; and when the "build" will be complete.
GPRA Reporting	Benchmark the Postal Service's GPRA requirements against other government agencies.
Voice of the Employee	Review the Postal Service Voice of the Employee Survey program to determine how the Postal Service uses the survey responses, what the benefits are, and if the employee participant rate is sufficient to provide reliable data.
Postal Service Regulatory Reporting	Review the major management reports the Postal Service issues regarding its plans, strategies and measurements and determine whether they duplicate one another and if any can be eliminated.
District Consolidation Savings	Review information to determine the actual savings from district consolidations and if there is potential for additional consolidation of area and district offices across the United States.
Business Environment Assessment	Determine if the Postal Service's Business Environment Assessment provides management with the information they need.

MARKETING

Plans and directs audits and reviews that examine how the Postal Service's activities, organization, and policies relate to its strategic vision and mission. Reviews focus on a variety of areas, including the Transformation Plan, Marketing, and International Business.

<u>PROJECT</u>	<u>OBJECTIVE</u>
Review of the Postal Service's Negotiated Service Agreement with Capital One	Determine the extent to which the Negotiated Service Agreement with Capital One achieved the intended results of increasing mail volume, revenue, and cost savings; and determine whether the Postal Service could rely on the Postal Service systems used to obtain accurate and timely data on mail volume and revenue.
Audit of the International Customized Mail Agreement Program	Determine if international customized mail agreements are profitable.
Audit of the Expedited Packaging Supply Program	Determine the effectiveness and efficiency of management's controls over expedited packaging supplies. Specifically, determine the adequacy of management's efforts to monitor and track expedited packaging supplies offered to customers.
Marketing Primer (Reference Tool)	Document the mission, organizational structure and staffing, budget, and functional areas and associated programs within the Postal Service Marketing group.
Marketing Structure (Case Study)	Understand and contrast Marketing's structure to other quasi-government entities and Fortune 500 companies.
Marketing Strategy – Product Solutions (Audit)	Determine and assess how Postal Marketing identified and will manage core products such as Kahala Post, e-Bay Alliance, Carrier Pick-up, and Click-n-Ship to ensure the greatest revenue potential for FY 2005. (Strategy 1 - Product Solutions is included in the FY 2005 Postal Service Marketing Strategic Plan.)
Marketing Strategy – Value and Pricing (Audit)	Determine and assess how Postal Marketing identified when to use pricing flexibility as a strategic business tool for FY 2005. (Strategy 2 - Value and Pricing is included in the FY 2005 Postal Service Marketing Strategic Plan.)

MARKETING CONTINUED

Marketing Strategy – Channel and Servicing (Audit)	Determine and assess how Postal Marketing identified services desired by customers; and will manage the customer experience to ensure customer satisfaction for FY 2005 using Sure Money, Integrated Business Service Network, Customer Gateway, Internet Channel, and Customer Connect. (Strategy 3 - Channel and Servicing is included in the FY 2005 Postal Service Marketing Strategic Plan.)
Product Promotion / Advertising (Audit)	Determine and assess how the Advertising group identified the NASCAR sponsorship, Express Mail and Priority Mail, and Lead Generation as programs and/or services to promote in their effort to grow revenue for the Postal Service in FY 2005.
Postal Customer Council (Audit)	Assess the mission of the Postal Customer Council and determine the extent of involvement, resources, and support the Postal Service provides; and determine how this involvement will enhance customer satisfaction for the Postal Service in FY 2005.
Marketing Strategic Planning (Case Study)	Assess Marketing's separate strategic planning process.

PLANNED AUDITS FOR AUDIT OPERATIONS:

QUALITY ASSURANCE

Plans and directs internal programs, audits and reviews of OIG audits and mission support programs to ensure the engagements are conducted with integrity and efficiency.

PROJECT	OBJECTIVE
Audit Assessment Reviews of Functional Areas	Determine whether audits and audit-related projects were conducted in accordance with GAS and OIG policies and procedures.
Follow-up Inventory Control Process Review	Determine whether the OIG implemented corrective actions related to prior recommendations.
Hotline Process	Assess the efficiency and effectiveness of processing, recording and tracking hotline complaints.
OIG E-buy Process	Evaluate the efficiency and effectiveness of purchases.
OIG Payroll Process	Evaluate the efficiency and effectiveness of the payroll process including overtime expenditures.
Security of Information Resources	Evaluate security measures of former and current employees' access to OIG systems. Also, will determine whether information resources are properly safeguarded.
Managing Credentials and Badges	Determine the adequacy of the process for managing badges and credentials.

EXPERTS

OIG Experts provide analytical support, including statistics, economics and cost analysis to audits and investigations. The Experts will begin publishing informational papers on Postal programs and operations.

PROJECT	OBJECTIVE
Consolidation of the Processing Facilities	Perform cash flow/return-on-investment analysis to determine the extent of savings if any, as a result of the consolidation of facilities.
Universal Coding System	Review the Decision Analysis Report to determine if savings are likely to occur and if the project is justified.
Flats Facer Cancellor	Review the Decision Analysis Report process to determine whether the vendor made required improvements in the prototype before moving into production, and to review the justification for the project.

APPENDIX I: MAJOR MANAGEMENT ISSUES FACING THE POSTAL SERVICE

Our audits will address the five management challenges that continue to pose a risk to the Postal Service. Following is a snapshot of each challenge:

- **Cost Control** — With declining revenues in several key areas, the Postal Service must control costs to maintain universal service. The greatest opportunities to reduce costs are in optimizing its network, controlling its labor costs and increasing efficiencies through technology investments.
- **Revenue** — Revenue growth has been relatively stagnant in the face of rising labor costs and increases in new delivery points. The Postal Service must strive to develop revenue streams that fully cover the cost of its operations without placing undue burden on ratepayers.
- **Strategic Direction** — The Postal Service must balance its public service obligation with the need to remain commercially viable. To achieve this objective, the Postal Service must continue to work within existing law to increase its business effectiveness and operational efficiency.
- **Safety and Security** — With more than 700,000 employees, nearly 38,000 facilities and approximately 200 billion pieces of mail to deliver each year, the Postal Service has the enormous task of securing the nation's mail system and safeguarding its postal employees and customers in an environment of increased terrorist attacks.
- **Management Information** — To address concerns that information provided by the Postal Service is not transparent, the Postal Service has embarked on an effort to provide information that better meets the needs of its managers and stakeholders.